Foresight

FOR A SMARTER FUTURE

STABILITY IN ADVERSITY:

The growing popularity of infrastructure investments in a crisis-hit world

JUNE 2020

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Introduction

The global economy and financial markets looked reasonably stable at the beginning of 2020. There were disconcerting uncertainties, such as the US-China trade conflict and Brexit, but in January the world economy looked set to continue growing moderately. COVID-19 changed all that.

Ongoing market volatility has left investors wondering where they can invest to achieve decent, risk-adjusted returns without the threat of more wealth-destroying downturns. Investors need the help of financial advisers more than ever.

To gauge advisers' thoughts, Foresight commissioned the latest research in a series of studies dating back to 2018. The findings reveal how advisers are positioning their clients' portfolios and what they think about the various asset classes, such as equities and bonds as well as an alternative asset that is looking increasingly attractive in the current environment – infrastructure. The case to include infrastructure, which offers strong risk-adjusted returns based on real assets, in portfolios is becoming more prevalent among advisers. The evidence for this and other findings is outlined below.

A long list of challenges

Understanding financial markets is always challenging, but the list of challenges facing advisers and their investors is getting very long.

COVID-19 is widely expected to cause the sharpest ever fall in the global economy. There are strong hopes that the recovery will be just as sharp, but the truth is nobody knows.

There is a lot for investors to worry about. But what concerns advisers the most? Our own research shows that the main worry for them is a potential, sustained downturn in the current financial climate **[Q4]**, which is cited by 94% of our respondents. But in terms of assets, UK equities are causing the greatest portfolio concerns (60%), which is a highly significant step up from the 35% who said so in December 2019. Nearly two in five (38%) are concerned about global equities and 26% about UK fixed income. **[Q6]**

STABILITY IN ADVERSITY:

Where are advisers finding solutions?

'Defensive' is clearly a key approach for many advisers. More than three in four advisers (76%) still invest in bonds. What is striking is that a rising proportion invests in infrastructure for its defensive qualities. This is now 65%, versus 64% who did so in December 2019 and 52% in December 2018 **[Q3]**.

Securing income is also a prime goal for many investors and the search for it has become much harder in recent years because of declining interest rates. Some market observers believe the step up in QE going forwards could even drive interest rates into negative territory, making this goal even harder to achieve from bonds. Many companies have already announced they will not be paying dividends to their shareholders this year. At the time of writing (29 June 2020), nearly half of FTSE 100 firms had already cut or suspended dividends. While the other half had kept or increased dividends, the total payout was still going to be the lowest since 2015, according to AJ Bell.*

Given the sustained low interest rate environment, over half (53%) of advisers now invest in infrastructure to generate an income, which is up sharply from the proportion doing so in December 2019 (42%). This now makes it the second most popular income strategy behind equity income (71%) but ahead of strategic bond funds (51%). This marks a significant shift in sentiment: in December 2019, 58% of advisers cited strategic bond funds. **[Q5]**

65%
of advisers
are now using infrastructure for its defensive qualities

53%
of advisers
now invest in infrastructure to generate an income making it the second most popular income strategy behind equity income

In a fast-changing and challenging world, investors are reassured by holding 'real' physical assets such as schools, hospitals, waste processing facilities and increasingly, renewable energy assets such as solar and wind farms. These can all generate regular income and preserve capital values with in-built protection against inflation. These attributes help to explain the low correlation of infrastructure assets to equity and bond markets.

What is more, it is precisely these attributes that are not lost on advisers: Infrastructure appeals to advisers the most for its low correlation with equity markets (73%), followed by its defensive qualities (66%); low volatility (58%) and delivery of reliable income (54%). **[Q7]**

But advisers believe that infrastructure's most appealing qualities for investors are its ability to provide long-term positive and stable cashflows and its low correlation to equities and bonds (both 26%), followed by stability of political environment (18%); low volatility and protection against inflation (both 16%). **[Q13]**

88%
of advisers
believe an increase in the availability of infrastructure funds for retail investors would result in them being recommended more by advisers

*Source: https://www.thisismoney.co.uk/money/diyinvesting/article-8432467/Ugly-FTSE-100-forecast-16-fall-dividends-year.html

STABILITY IN ADVERSITY:

Growing appetite for infrastructure

At present, the average allocation to infrastructure in advisers' client portfolios is 5.6% **[Q11]**. However, 72% anticipate their clients' exposure to infrastructure will increase over the next three years, whereas fewer (52%) anticipate the same for equities **[Q10]**.

No doubt the current state of markets is a major factor in this expectation. But advisers also believe that more opportunities to invest would support this rise: nearly nine out of 10 (88%) believe an increase in the availability of infrastructure funds for retail investors would result in them being recommended more by advisers, versus 78% who said the same in December 2019 and 75% in the year before. **[Q8]**

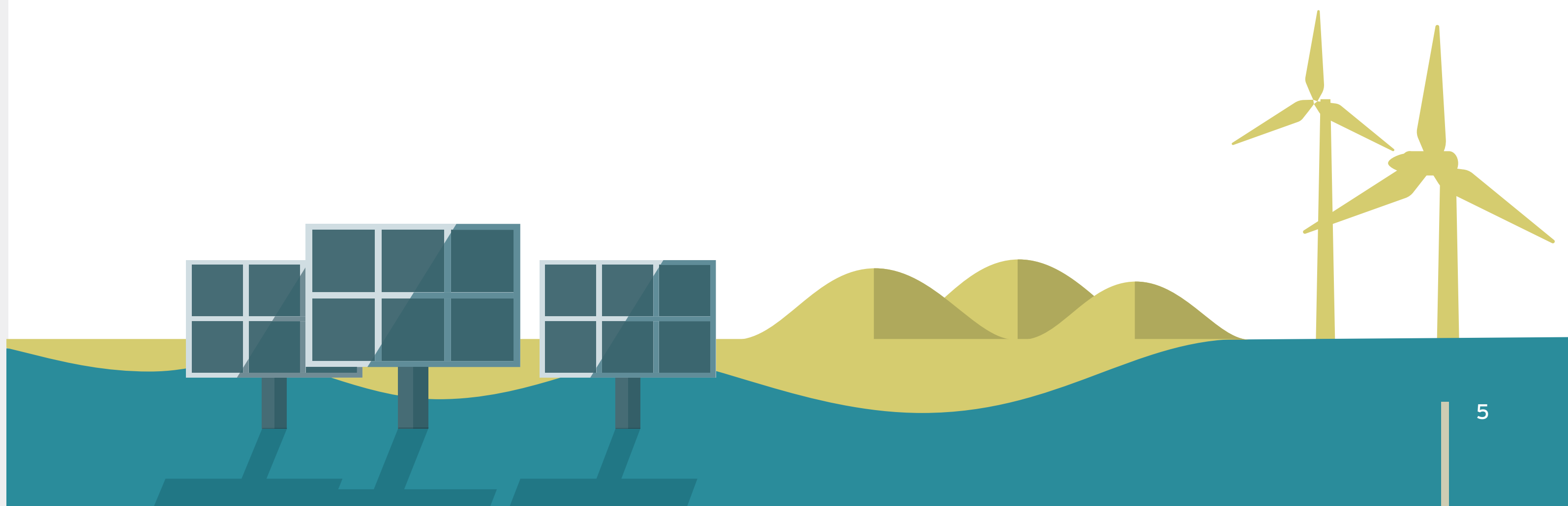
External threats

Brexit has posed serious uncertainty for UK investors ever since the referendum in 2016. The chances of a no deal exit became even more apparent after the Tory general election victory in December. But the risks posed by Brexit have been compounded as the COVID-19 crisis has become the most pressing issue for global markets today.

In December 2019, 53% of advisers believed the uncertainty caused by Brexit would directly increase the demand for infrastructure among UK investors. The proportion of advisers who now say this has increased marginally to 56%. More than half (54%) of advisers – the highest proportion - also now believe infrastructure is the asset class most likely to see an increase in demand from UK investors because of the uncertainty caused by the COVID-19 crisis. This was followed by alternatives (38%); equities (20%) and fixed income (19%). **[Q18]**

"...Infrastructure is the asset class most likely to see an increase in demand from UK investors because of the uncertainty caused by the COVID-19 crisis."

Nearly half of our respondents (47%) say infrastructure is the asset class best-placed to deliver a sustainable income during the current economic crisis caused by COVID-19, followed by equities (21%); and fixed income (13%). **[Q19]**. Nearly three in four (75%) also say they are 'likely' to consider using infrastructure within their traditional equity income allocation to access sustainable income during the current economic uncertainty caused by COVID-19, including 24% who say they are 'extremely likely'. **[Q20]**



STABILITY IN ADVERSITY:

An asset class for today

Economists and historians will likely look back on 2020 as a monumental turning point. The COVID-19 crisis is bringing to a head the growing pressures being generated worldwide by political unrest and rapid technological advances. The world is set to undergo some major changes before it enters the new economic paradigm for which it is destined. This spells turbulence for financial markets. However, it is also true that governments around the world see investment in infrastructure – and especially renewable energy – as a key element in rebuilding economies.

Our research shows that financial advisers fully appreciate current events and recognise that their clients' portfolios will need to adapt to the new reality if their investment goals are to be met. They also clearly appreciate the benefits that infrastructure can bring to portfolios in terms of providing stability in the face of market turbulence.

Whereas the Global Financial Crisis spurred many investors to look beyond the traditional asset classes of equities and bonds, the COVID-19 crisis will only drive their appetites for alternatives further. Among these alternatives, our research shows the merits of infrastructure are being increasingly appreciated by financial advisers.

Investors do still need to partner with those managers investing in the right infrastructure assets, however. The COVID-19 outbreak has challenged the notion that all 'core' infrastructure is resilient in the face of an economic downturn. Airports, ports and toll roads have clearly been hit hard by the lockdown whereas renewable energy 'utility' infrastructure that continues to help meet the constant and robust demand for power has proved remarkably resilient, for example. Overall, infrastructure is clearly an asset class whose time has come, offering enduring solutions to today's global challenges.

82%

OF ADVISERS

expect investors' demand for ESG strategies to increase

STABILITY IN ADVERSITY:

Increasing demand for ESG integration

There is a growing consciousness worldwide for more consideration to be given to environmental and social issues. This has seen expression in many areas of society, not least in the global climate movement and the widespread adoption of the UN's Sustainable Development Goals (SDGs).

The asset management industry has responded to this movement too, serving growing investor appetite for more sustainable/responsible investing by integrating ESG factors into investment processes and exercising their voting powers on companies to encourage more responsible behaviour. This is reflected in our research, which shows 82% of financial advisers expect investors' demand for ESG investment strategies will increase this year versus last year. **[Q14]**

A research paper published by Foresight in January this year titled *'Making Inroads: Challenging preconceptions and overcoming barriers to ESG and sustainable investment'* examined financial advisers' perceptions of the issues. It showed that advisers appreciate they can play a pivotal role in guiding their clients towards investments in line with this new world of Sustainability and ESG. Research outlined in the paper showed that 64% of advisers now see ESG considerations as important when building portfolios for their clients.

Importantly, more than two thirds (68%) believe that incorporating ESG considerations into investment strategies does not impact financial returns negatively and 80% regard investments as being a critical factor in helping the UK to meet net-zero carbon targets.

PROPOSITION:

The Foresight infrastructure proposition

Foresight's infrastructure business is built on strong foundations which come from investing successfully at scale, on behalf of both institutions and retail investors, across the breadth of energy infrastructure for more than a decade. Foresight invests for the long term and focuses on new and replacement power infrastructure. Our team originates, executes and provides ongoing asset management services to offer a comprehensive solution for both institutional and retail investors.

The FP Foresight UK Infrastructure Income Fund (FIIF) targets an annual income of 5% through a portfolio of UK-listed renewable energy and infrastructure investment companies.

The FP Foresight Global Real Infrastructure Fund (GRIF) is an open-ended investment company, investing in the publicly traded shares of companies that own or operate real infrastructure or renewable energy assets anywhere in the world. The Fund targets an annual return in excess of CPI+3% over any five-year period.

The FP Foresight Sustainable Real Estate Securities Fund targets a 4% income yield from a portfolio of listed, highly liquid Real Estate Investment Trusts (REITs), which have exposure to sustainable and long duration real estate-backed cash flows.

APPENDICES:

Foresight Infrastructure Outlook survey

Fieldwork May 2020

Research Methodology

1

The survey was conducted by PollRight among 112 financial advisers between 15 and 31 May 2020.

2

The advisers managed an average of £174.4m of Assets on behalf of their clients.

3

Just under two thirds (62%) followed a prescribed in-house investment process and asset allocation policy.

Profile of Respondents

Q1:

Which of the following best describes your investment process?

Answers	May 2020	Dec 2019	Change	Dec 2018	Change
In-house investment process	62%	69%	-7%	64%	-2%
Outsource some investment decisions, but will recommend in certain situations	22%	24%	-2%	24%	-1%
Outsource most/all investment decisions	16%	7%	+9%	13%	+3%

Q2:

What is the total AUM of the adviser group that you represent in £m?

Answers	May 2020	Dec 2019	Change	Dec 2018	Change
Less than £10m	7%	11%	-4%	6%	+1%
Between £10m and £24m	13%	13%	-1%	13%	-0%
Between £25m and £49m	18%	20%	-2%	15%	+2%
Between £50m and £99m	21%	17%	+4%	19%	+2%
Between £100m and £249m	16%	14%	+2%	26%	-10%
Between £250m and £499m	11%	10%	+1%	8%	+2%
More than £500m	13%	13%	-1%	12%	+0%
Don't know	2%	1%	+1%	0%	+2%
Average	**£174.40m**	**£169.28m**	**+£5.12m**	**£190.65m**	**-£16.25m**

Q3:

What asset classes are you using for defensive qualities (low correlation/low volatility)? Please select all that apply.

Answers	May 2020	Dec 2019	Change	Dec 2018	Change
Bonds	76%	73%	+3%	72%	+4%
Infrastructure	65%	64%	+1%	52%	+13%
Gilts	49%	60%	-11%	47%	+2%
Property	46%	52%	-6%	59%	-13%
Absolute Return	33%	36%	-3%	41%	-8%
Other (please specify)	23%	17%	+6%	22%	+1%

Q4:

How significant a concern are the following issues for you and your clients?

Answers	No concern at all	Very little concern	Some concern	A significant concern	All concerned May 2020	All concerned Dec 2019		All concerned Dec 2018	
The potential for a sustained downturn in the current financial climate	2%	4%	40%	54%	94%	42%	+51%	54%	+39%
Market volatility in investment products	2%	7%	53%	38%	91%	83%	+8%	94%	-3%
Interest rate rises	18%	45%	33%	4%	38%	47%	-10%	75%	-38%

Q5:

In this sustained low interest rate environment, what asset classes are you investing in principally to generate income for your clients? Please select all that apply.

Answers	May 2020	Dec 2019	Change
Equity Income	71%	84%	-13%
Infrastructure	53%	42%	+11%
Strategic Bond Funds	51%	58%	-7%
Corporate Bond Funds	40%	43%	-3%
Property	30%	42%	-12%
Government Bonds	24%	15%	+9%
Absolute Return	13%	5%	+8%
Other (please specify)	15%	7%	+8%

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Q6:

What portion of your portfolios are causing the greatest concern? Please select all that apply.

Answers	May 2020	Dec 2019	Change	Dec 2018	Change
Equities UK	60%	35%	+25%	66%	-6%
Fixed Income UK	26%	39%	-13%	n/a	n/a
Equities Global	38%	32%	+6%	42%	-4%
Fixed Income Global	17%	27%	-10%	43%	-26%
Growth Assets	10%	17%	-7%	21%	-11%
Property	48%	44%	+4%	16%	+32%
Absolute Return	13%	16%	-4%	15%	-3%
Defensive Assets	8%	5%	+3%	14%	-6%
Other (please specify)	6%	7%	-1%	5%	+1%

Q7:

What qualities do you expect an investment in infrastructure to provide to your portfolio? Please select all that apply.

Answers	May 2020	Dec 2019	Change	Dec 2018	Change
Have low correlation to equity markets	73%	69%	+4%	76%	-3%
Add a defensive element to your portfolios	66%	58%	+8%	56%	+10%
Low volatility compared to equity markets	58%	50%	+8%	57%	+1%
Produce a reliable income	54%	45%	+9%	44%	+9%
Other (please specify)	3%	4%	-1%	3%	-1%

Q8:

Do you believe the increased availability of infrastructure investment funds for retail investors will result in a greater number of advisers recommending this asset class to clients?

Answers	May 2020	Dec 2019	Change	Dec 2018	Change
Yes - there will be a significant increase in the number of infrastructure funds being recommended	25%	18%	+7%	20%	+5%
Yes - there will be a slight increase in the number of infrastructure funds being recommended	63%	60%	+3%	55%	+8%
No - it will have no effect on the the number of infrastructure funds being recommended	6%	12%	-6%	7%	-1%
No - it will lead to a decrease in the number of infrastructure funds being recommended	0%	0%	+0%	1%	-1%
Don't know	5%	10%	-5%	17%	-12%
All Yes	**88%**	**78%**	**+10%**	**75%**	**+13%**
All No	**6%**	**12%**	**-6%**	**8%**	**-2%**

Q10:

How do you anticipate your clients' allocation to the following asset classes will change over the next three years (select one response per asset class)?

Answers	Increase significantly	Increase slightly	Stay the same	Decrease slightly	Decrease significantly	Don't know	**All increase**	**All decrease**	All increase Dec 2019		All increase Dec 2018	
Infrastructure	12%	61%	22%	2%	0%	4%	**72%**	**2%**	76%	-4%	65%	+8%
Equities	2%	50%	43%	4%	1%	1%	**52%**	**4%**	35%	+17%	-	-
Alternatives	4%	30%	48%	6%	2%	9%	**34%**	**8%**	37%	-3%	-	-
Fixed Income	1%	14%	52%	30%	0%	2%	**15%**	**30%**	18%	-3%	-	-
Property	1%	3%	32%	37%	25%	2%	**4%**	**62%**	8%	-5%	-	-

Q11:

What is the average allocation to the following asset classes in your current portfolios (select one response per asset class)?

Answers	0.0%	Between 1% and 5%	Between 6% and 10%	Between 11% and 15%	Between 16% and 25%	More than 25%	**Average**	Average Dec 2019		Average Dec 2018	
Equities	1%	0%	2%	1%	10%	87%	**26.5%**	28.3%	-1.8%	-	-
Fixed Income	2%	5%	19%	29%	28%	18%	**16.0%**	15.8%	+0.2%	-	-
Alternatives	8%	33%	38%	14%	6%	1%	**7.4%**	7.6%	-0.3%	-	-
Property	9%	28%	50%	10%	4%	0%	**6.8%**	6.1%	+0.7%	-	-
Infrastructure	11%	46%	32%	9%	3%	0%	**5.6%**	5.6%	+0.1%	4.1%	+1.5%

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Q13:

How important are the following factors and their influence on investor sentiment towards infrastructure?

Answers	Very important	Important	Neutral	Not important	Not at all important	All important	All unimportant	All important Dec 2019		All important Dec 2018	
Low correlation to traditional assets such as equities and bonds	26%	62%	11%	0%	2%	**88%**	**2%**	83%	+4.5%	79%	+8.7%
Long-term positive and stable cashflows	26%	61%	11%	1%	1%	**87%**	**2%**	78%	+8.6%	74%	+12.9%
Protection against inflation	16%	57%	23%	2%	1%	**73%**	**3%**	81%	-7.8%	68%	+5.1%
Low volatility	16%	48%	29%	4%	1%	**64%**	**5%**	71%	-6.7%	63%	+1.7%
Stability of political environment	18%	39%	38%	3%	1%	**57%**	**4%**	64%	-6.5%	18%	+39.3%

Q14:

What do you expect will happen to investor demand for ESG investment strategies over 2019?

Answers	May 2020	Dec 2019	Change	Dec 2018	Change
Increase significantly	29%	30%	-1%	9%	+21%
Increase modestly	53%	49%	+4%	52%	+1%
Remain the same	14%	17%	-3%	26%	-12%
Decrease modestly	1%	0%	+1%	1%	+0%
Decrease significantly	0%	1%	-1%	1%	-1%
Don't know	3%	3%	-0%	12%	-9%
All increase	**82%**	**79%**	**+3%**	**61%**	**+21%**
All decrease	**1%**	**1%**	**-0%**	**1%**	**-0%**

Q18:

How do you anticipate the uncertainty caused by COVID19 will impact the demand for the following asset classes among UK investors (select one response per asset class)?

Answers	Increase	Stay the same	Decrease	Don't know
Infrastructure	54%	35%	2%	9%
Alternatives	38%	46%	4%	11%
Equities	20%	44%	31%	5%
Fixed Income	19%	46%	29%	7%
Property	5%	21%	68%	6%

Q19:

Which of the following asset classes do you think is best placed to deliver a sustainable income during the current economic crisis caused by COVID?

Answers	May 2020
Infrastructure	47%
Alternatives	10%
Equities	21%
Fixed Income	13%
Property	4%
Other (please specify)	5%

Q20:

How likely are you to consider using Infrastructure within your traditional Equity Income allocation to access sustainable income during the current economic uncertainty caused by COVID19?

Answers	May 2020
Extremely likely	24%
Moderately likely	50%
Neither likely nor unlikely	14%
Moderately unlikely	2%
Extremely unlikely	5%
Don't know	4%
All likely	**75%**
All unlikely	**7%**

About Foresight

We are a leading independent infrastructure and private equity investment manager.

We manage funds for institutional investors, family offices, private and high net-worth individuals and have continued to expand rapidly in recent years with staff numbers now exceeding 230.

More than half of our assets under management comes from institutions, with the remainder made up from the traditional retail structures, such as VCTs, EISs, BR (Business Relief) schemes and OEICs.

Investing for a Smarter Future

Investing for a smarter future is what we have been doing for more than 35 years.

To us, a smarter future means thinking both about the way we invest our clients' capital as well as the impact it has, be it diverting waste from landfill to convert into renewable energy; managing solar plants and wind turbines to power industry with up to 100% renewable energy; acquiring utility scale battery storage assets to balance the grid; supporting small businesses with growth capital and providing attractive investment opportunities for some of the largest and most demanding of institutional investors.

Investing for a smarter future is a principle that guides everything we do as we continuously search for ways to create a sustainable legacy for future generations.

Green Innovation + Finance Awards — Infrastructure Financier of the year — WINNER 2017

Investment Week — SUSTAINABLE & ESG INVESTMENT AWARDS 2018

FP Foresight UK Infrastructure Fund — WINNER FUND MANAGER OF THE YEAR AWARD — PLC Awards 2018

sri services

PRI Principles for Responsible Investment

Foresight Group Sustainability Statistics

240+renewable generation assets globally

2.2GW

of total generating capacity

Offset

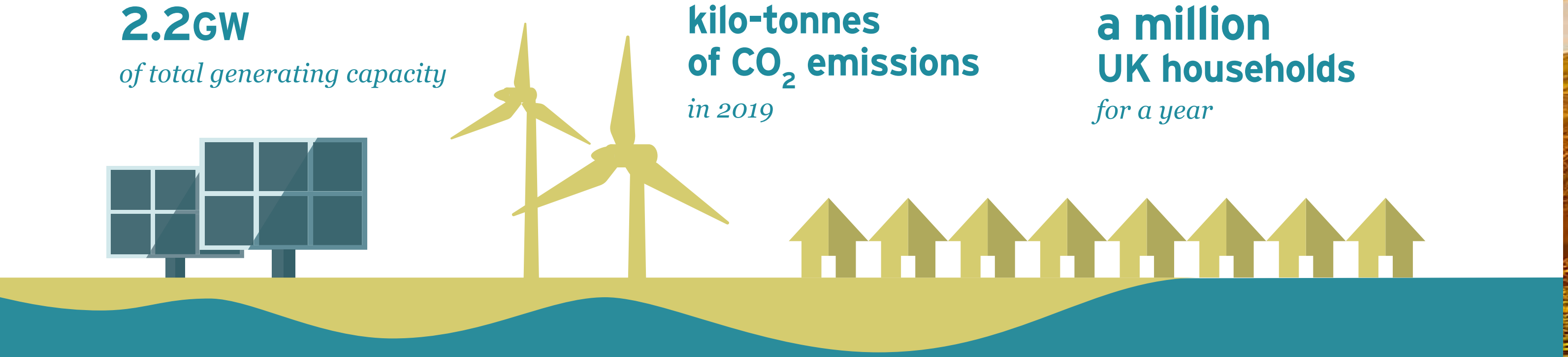
over 1,200 kilo-tonnes of CO_2 emissions

in 2019

That's enough to power

more than half a million UK households

for a year



Foresight's infrastructure business is built on strong foundations which come from investing successfully at scale, on behalf of both institutions and retail investors, across the breadth of energy infrastructure for more than a decade.

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